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SUBJECT: SLOVENIA: PROJECTED GDP GROWTH TUMBLES SHARPLY

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¶B. LJUBLJANA 61
¶C. LJBULJANA 78

Summary

¶1. (SBU) As recently as March 19, our government and business contacts assured Emboffs that they will be able to weather the crisis if the global economy is able to turn around this year. However, as many contacts have told Emboffs, "As Germany goes, so goes Slovenia." Based on Germany's falling economic numbers, on March 24, the Slovenian government's Institute of Macroeconomic Analysis and Development (IMAD) revised projected GDP growth for 2009 down to -4%. This revision is a huge shock to Slovenia, as IMAD had announced an estimated 2009 GDP growth rate of 0.6 only 3 weeks earlier. However, the underlying numbers that makeup the overall picture of the Slovenian economy remain fairly robust. Unemployment, while rising, is still low especially for the Eurozone at 4.7 percent. The government is focused on fiscal and other measures it can take while trying to stay within the EU policy boundaries. The major uncertainty regarding the Slovenian economy is the amount of debt and the value of assets held by majority state-owned companies, particularly banks. End Summary.

Looking at the numbers

¶2. (U) Prompted by a proliferation of media reports on the fragile nature of the economies of Central and Eastern European countries, Emboffs compiled data from a number of sources to establish the most current and accurate snapshot of the Slovenian economy. In addition to IMAD, sources include the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI), the European Commission (EC), the Slovenian Chamber of Commerce and Industry, annual statements from the Central Bank of Slovenia, the Slovenian Statistics Office, the CIA Factbook, and conversations with officials from the Ministries of Finance and Economy.

GDP growth finally slides into the negative

¶3. (U) In 2008 Gross Domestic Product (GDP) real change fell to 4.0% from 2007's 6.8%. After years of impressive growth, 4th quarter 2008 was the first quarter with negative growth since 1993. Slovenian officials still believed growth would pick back up in 2009 and in February, IMAD announced that Slovenia's real GDP growth rate in 2009 would be 0.6%. The EC confirmed that estimate. However, on March 24, IMAD issued a press release revising that number down to -4%.

¶4. (U) As a baseline, GDP in Slovenia is approximately 37B Euro (USD 50B). However, the CIA Factbook puts 2008 GDP purchasing power parity at 61.8B USD. GDP per capita in 2008 was approximately 28,000 USD, which is 93% of the EU average. Services represent over 63% of Slovenia's GDP, industry

accounts for about 28%, construction 7% and agriculture only 2% of GDP.

Budget & Account Balances - weaker, but not scary
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¶5. (SBU) While Slovenian Minister of Finance (ref A) and the Minister of Economy (ref B) both said that Slovenia would attempt to keep its budget deficit under the 3.0% EU Maastricht criteria in 2009, the European Commission interim forecast in January predicted that the budget deficit would increase to 3.2% and then come back down to 2.8% in 2010. Given IMAD's -4% GDP growth announcement, it seems inevitable that the deficit will rise above 3%. In 2008, Slovenia ran a budget deficit of -0.9% of GDP after having had a budget surplus of 0.5% the prior year. Exports account for 70 percent of GDP.

¶6. (U) In 2007 the current account balance, as a percent of GDP, was -4.0%. According to IMAD's February figures, the current account deficit widened in 2008, posting slower growth in the second half of the year. The deficit totaled 2.2B Euro for the year, 5.8% of GDP. Reflecting the prior sluggish but positive GDP growth, the EC predicts a current account balance for Slovenia of -5.8% of GDP in 2009, -6.0% in 2010.

¶7. (SBU) Ministry of Finance officials told Emboffs on March 19 that they estimated non-performing loans to be about two percent of total assets in Slovenia, although they could be as high as five percent (ref C). However, neither we nor anybody else can verify this figure given the nature of Slovenia's relatively opaque, majority state-owned banking system.

Trade-dependent Slovena is very anti-protectionism
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¶8. (U) As governmnt officials repeatedly stress, goods and services exports make up 70% of Slovenia's GDP. According to the Central Bank, Slovenia's trade balance in November 2008 was -247.3M USD. IMAD announced in September that Slovenia's trade deficit with EU countries widened in 2008, and the surplus of trade with non-EU countries shrank. However, these numbers mostly reflect trade in merchandise, as Slovenia's surplus in the services balance grew in 2008. The services surplus was 2.5 times higher in 2008 than in 2007. Transport and travel services made up the bulk of the surplus. According to the Slovenian Statistics Office, 21% of Slovenian companies sourced their business activities to foreign markets in the past eight years. According to the Slovenian Chamber of Commerce, EU countries account for 70.6% of Slovenia's exports and 78.9% of its imports. South Eastern Europe receives 16.2% of Slovenia's exports and delivers 7.5% of its imports. Germany is Slovenia's single biggest trading partner, accounting for 18.7% of Slovenian exports. Italy follows with 12.5%, then Croatia with 8%, Austria 7.5%, France 5.9%, and Russia (essentially the greater Moscow greater metropolitan area) 4.4%. So the downturn in the economies of those target countries has significantly impacted Slovenia.

¶9. (SBU) Additionally, Slovenia has a vested interest in the economies of its neighbors to the East. The bulk of Slovenian FDI is in former Yugoslavian countries, with 28.6% in Croatia and 22.8% in Serbia. Both as a trading partner and out of concern for their FDI, Slovenian officials have told Emboffs they are concerned about Croatia's struggle with liquidity. PM Pahor recently led a trade delegation to Serbia in an effort to increase bilateral trade. Ministry of Finance officials told Emboffs that Slovenia supports international financial institutions' efforts to support the economies of European countries in financial crisis (ref C).

Other numbers indicate base economic stability
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¶10. (SBU) The government is concerned about the rising

unemployment, because of the potential for unrest and because providing more social benefits would impact the already stressed budget. Current unemployment using the International Labor Organization's definition is 4.7%, expected to rise to 5.2% in 2009 (ref A). These numbers are low by any standard, and especially low in comparison with typical EU rates of unemployment. However, ILO numbers are lower than the number of Slovenian "registered unemployed," which can include students and other individuals who do not actively seek full-time employment, but still receive benefits.

¶11. (SBU) Slovenia's greatest strength in the current financial landscape, as echoed by almost all government and private sector embassy contacts, is its membership in the Eurozone. Slovenia holds about 793 million USD in foreign exchange reserves, which is significant reduced from the levels it used to hold prior to adopting the Euro. Now Slovenia relies on the European Central Bank to guarantee sufficient currency reserves. Slovenia is also benefiting from the conservative approach of its majority state-owned banking system during the previous decade. Slovenian banks largely avoided CDOs and other "exotic" financial instruments in the years preceding the crisis. However, some analysts argue that the incestuous relationship among banks and state-owned companies, which frequently hold large amounts of each other's shares, may conceal significant financial vulnerabilities. Most observers believe, however, that when the larger EU countries emerge from the recession, Slovenia will too. As Germany goes, so goes Slovenia.
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